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SUBJECT Economic Information: Imports of Gold into China

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SUPPLEMENT

1. The high market prices for gold in Shanghai and other Chinese business centers - prices out of proportion to the US dollar cross-rate - have up to the present time made the importation of gold extremely profitable. (It remains to be seen whether the ban on purchase and sale of gold by Chinese nationals, announced 16 February 1947, will put an end to the booming gold market.) As evidence of the differential between the price of gold in Shanghai and the price of US dollars, it may be noted that the Bank of China, in December 1946, sold gold bars at a price equivalent to approximately US \$52.55 per ounce in an effort to halt the depreciation of the CNG. Because of this price differential, the importer of gold, even though he had acquired US dollars at the black market rate, could expect a profit ranging from 15% to 20%.

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2. Hongkong and Macao are the two chief ports through which gold enters China illegally. There is, no doubt, some smuggling of gold into other ports, but while no reliable estimate of the volume is available, it is believed to be on a relatively small scale, being conducted individually by passengers and crew members of planes and ships. Some gold probably enters Hongkong and Macao in the same manner. But the only method by which large amounts enter China consists of the legal importation, with import licenses, into Hongkong and Macao, and the subsequent smuggling from these ports into the Chinese Republic.

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3. The importer is usually a Chinese syndicate. Such a syndicate may be formed in Hongkong, Canton, or elsewhere, and may include native banks, gold merchants, and individuals. So far as is known in Hongkong, foreigners have not formed such syndicates, and have seldom or never participated in them. The method of operation of such syndicates varies. The same syndicate may import the gold into Hongkong or Macao and subsequently smuggle it into China; or the importing syndicate may sell the gold in Hongkong or Macao, either on the market or privately, to another syndicate which will handle the smuggling into China. The importing syndicate may or may not have contracted for the sale of the gold prior to its purchase. In addition, a large number of the transactions in gold futures on the Hongkong market are purely speculative and quite unconnected with any physical importations of gold.

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4. The importing syndicate, having accumulated the requisite amount of US dollars in New York and having obtained an import license, arranges with one of the large Hongkong banks or bullion brokers for the purchase of the gold. As such a transaction from the point of view of the Hongkong and Mexico authorities is a perfectly legal one, the bankers and brokers regard it as legitimate business. Nearly all the large banks in Hongkong have taken part in the business. The Chase Bank and the Hongkong and Shanghai Banking Corporation have done the greater part of the business; the Chartered Bank, the American Express Company, and others have done some; the National City Bank has not, until recently taken part. The banks do not participate in the importing syndicate, but act merely as agents for the purchase and shipment, making a service charge which is now usually 5% (it was formerly higher). The syndicate pays the bank's New York office in US dollars by telegraphic transfer. Usually payment is made in full, but sometimes it is done on margin, i.e., the syndicate pays only a portion of the price in dollars in New York immediately, and the balance after receipt of the gold, the bank meanwhile holding a lien on the gold as collateral. The bank arranges for the purchase, insurance, and shipment of the gold. The purchase is usually made in Mexico through the bank's office or correspondent in that country. Usually the Chinese syndicate does not have its own agent in Mexico, and for this reason the banks are used. In order to obtain insurance coverage all papers must be in order, and for this purpose an import license is required.

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5. As of 26 December 1946, the total cost of importing one tael of gold from Mexico to Hongkong, including purchase price, commission to the bank, shipping, and insurance, was Hongkong \$270. Profit to the importer was Hongkong \$40 per tael, or about 15% on the cost price. The Far Eastern Economic Review of unstated date quoted in the North China Daily News of 19 January 1947 gives a somewhat different picture of the profit involved, as follows:

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The CIF price was about US 50-51 per coin (prob- or, computed at the average open funds rate of New York, about 225. The profit per coin was, on the average, Hongkong \$40 since gold prices fluctuated recently between Hongkong \$300 and \$320 per importing agents

usually made a profit of 5% as commission; the gold while paying a rather high interest rate (3% per month), which eventually to a serious burden because of the long delay in delivery the US West Coast Maritime strike, were completely satisfied with

These accounts of the profits involved are obviously based on the type of transaction by which the importer sells the gold in Hongkong. The purchaser then resmelted the gold into Chinese unit gold bars, placing his own chop upon them. They were then smuggled into China. Secrecy was necessary, both in leaving Hongkong (as the export of gold from the Colony is illegal)

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and in entering Chinese territory (as the private importation of gold into Chinese territory is illegal). In Canton the gold was sold at a wholesale price which represented an average profit of about CMC \$15,000 per tael to the Chinese merchant who handled the re-smelting, smuggling, and sale in Canton.

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6. Most of the gold is Mexican coin or Mexican bars. The fineness of this gold is 99.5%, whereas the fineness of the Canton gold bar is only 99%. Consequently, when the gold is resmelted by the syndicate for the Chinese market, silver or copper is added to reduce the fineness. Some little gold has been brought in from Peru and other Latin American countries, but because its fineness is less than that of the Chinese bar, which creates difficulties in re-smelting, it is considered less desirable than the Mexican. Some gold has been brought in from England (American bullion broker, F) and from the United States. It has been

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said that considerable amounts of gold have come in from India but this has been denied

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7. The Chinese Government prohibits the entrance of gold into China through private channels because such transactions use up foreign exchange without a corresponding absorption of CN currency. To put it differently, the Chinese Government is deprived of the opportunity to make a paper profit for itself by seizing such exchange and using it to buy gold at a fixed rate and selling it at a much higher one in the Shanghai market. The Chinese Government has consequently made representations to both the Hongkong and the Macao authorities in an effort to halt the issuance of licenses. As it is illegal to export gold from Hongkong, and as it was an open secret that practically all the gold imported into the colony was subsequently smuggled out into China, the Hongkong authorities felt they could not very well refuse. The first step in compliance with these representations was the suspension by the Hongkong authorities in late August 1946 of the issuance of any further licenses for the import of gold into the colony. The result was a shift of business from Hongkong to Macao. All of the gold destined for Macao was shipped through Hongkong, and for this purpose Hongkong transit licenses were required. The Hongkong authorities continued to issue these licenses until late November 1946, when they discontinued the practice at the request of the Chinese Government. It is understood that the Macao authorities will comply pro forma to a request by the Chinese Government that they discontinue the issuance of import licenses, but that they will secretly continue to issue them for a price.

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The Far Eastern Review gives dates for both the commencement and the cessation of the granting of import and transit licenses by the Hongkong Government.

8. As the various colonial authorities acceded to the successive requests of the Chinese Government, the activities of the Chinese syndicates changed to meet the new conditions. The following steps may be noted. (There is some overlapping because of the time-lag between the issuance of licenses and the actual importation.)

a. First period: importation of gold directly into Hongkong. During the few weeks in the summer of 1946 in which the Hongkong authorities were issuing licenses for the direct importation of gold into the colony, the total volume issued was for approximately 150,000 taels (200,000 ounces). As of the present date (19 February 1947) most of the gold for which such licenses were issued has now already been imported (principally by the Chase Bank).

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These imports actually started to arrive in September 1946. The Far Eastern Economic Review states that gold imports into Hongkong during September amounted to Hongkong \$3,630,000 (of which nearly 90% came from Mexico, and the remainder from the United States); between 1 September 1946 and the present date gold imports took place via the SS Treinmaersk, Ivaran, and General Meigs, as well as other ships.

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Some imports also arrived by air, in planes privately chartered for the purpose. Philippine Air Lines, F.E.A.T.I., and others were used. The total figure of gold imported into Hongkong to date is not available, but of the total number of licenses granted (150,000 taels), there are only a few still unused. These occasionally change hands in the Hongkong market.

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It is rumored that the practice of issuing licenses for direct importation into Hongkong may be resumed in the near future.

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b. Second period: importation of gold into Macao via Hongkong. Macao has no facilities for the landing of cargo from ocean-going vessels; until recently there was no adequate airfield for large transports. Consequently, so long as

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the Hongkong authorities were willing to issue transit licenses, after the halting of licenses for direct importation into Hongkong, the usual practice was to transship at Hongkong into smaller boats. The total volume of import licenses issued by Macao is placed at 500,000 ounces by one source [REDACTED] and at 800,000 by another [REDACTED].

The Hongkong authorities have issued transit licenses in the amount of about 400,000 ounces. [REDACTED]

c. Third period: importation of gold directly into Macao. As of 10 February 1947 this period was apparently about to begin, but there is a difference of opinion as to the volume of business that might be expected. The principal obstacle is the lack of facilities of all sorts at Macao. Shipping directly to Macao by sea would involve anchoring the ship about seven miles from the coast and transferring the cargo to smaller boats. The expense and risk of this operation, however, make it somewhat unattractive. [REDACTED]

[REDACTED]. The airfield is now undergoing some improvements. Prior to these improvements it was inadequate for a C-47, as evidenced by the recent crash of a C-47 belonging to the Roy Farrell Export Import Company. Improvements to date have rendered it serviceable for a C-47 in dry weather. [REDACTED]

[REDACTED] Further contemplated improvements include the elimination of part of the sea-wall in order to provide better clearance [REDACTED] and the laying-down of steel mats on the run-ways. [REDACTED]

[REDACTED]. It will not under any conditions be adequate for a four-engined plane. [REDACTED] Furthermore, the importation of gold directly into Macao is made difficult by the lack of proper banking facilities and of secure storage space. The one bank in Macao, the Banco Ultramarino, has no vault which is really secure. The expense of chartering a special plane could be borne only in the case of relatively large shipments, and the difficulty of handling and storing such shipments without loss by theft would be considerable. For these reasons it is doubted that direct importation of gold into Macao would attain a large volume. [REDACTED]

[REDACTED] The obtaining of Macao import licenses should offer no particular obstacle. The Macao Government has in the past made a charge of one Macao dollar per ounce of gold for import licenses, using the revenue for "relief purposes". [REDACTED]. Even though the Macao Government does not now issue the licenses openly, it is understood that ways and means of obtaining them can be found. [REDACTED]

d. Third period (continued): A large-scale transaction has been pending for several months. On 25 January 1947 [REDACTED] a syndicate was being formed in Shanghai for the importation of gold into Macao. This transaction was to deal in an amount - US \$50,000,000 - which would entirely dwarf all previous transactions. The membership of the syndicate was not disclosed, but apparently a large number of small participants were to be included. [REDACTED]

[REDACTED] believed that the principals in the syndicate were Chinese. He himself had been approached by a broker who was apparently acting as the promoter of the syndicate. [REDACTED] stated that the broker was a European and the only broker of his particular nationality in Shanghai. Importation was to be by air; both airline and route to be used were unknown, but it was assumed that no stop would be made at Hongkong. Gold coin was to be bought in Mexico through an unknown intermediary. Complete insurance coverage based not on the cost of the gold but on the selling price in Macao was to be provided. The total cost of the gold, laid down in Macao, after all expenses of purchase, shipping, and insurance had been paid, was expected to be about US \$42.65 per ounce. The sales price in Macao, which was to be contracted for prior to the purchase commitment, was expected to be about 5% less than the open market buying rate in Shanghai (equivalent on 20 January 1947 to approximately US \$58 and on 30 January to approximately US \$56 per ounce.) On 29 January [REDACTED] stated

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that he had been informed that the plans for the syndicate had been delayed. It is not known whether the delay was caused by difficulties in obtaining a Macao license or by a suspension by the Mexican Government of the sale of gold. (For a report on the latter, see the North China Daily News, 31 January 1947.) No information is available on the current status of the transaction in the light of the recent gold regulations issued by the Chinese Government.

9. As to the means by which gold has been smuggled into China, they have been as various as Chinese ingenuity could devise. A hint of one method may be discovered in the listlessness of the Hongkong gold market following the burning of the river steamer "Sai-on", which undoubtedly contained a considerable cargo of gold. The Hongkong gold market always slumps during the periods in which the Chinese air lines are grounded. It is curious to note also that a large portion of the gold which is legally imported via Hongkong into Macao is then divided into small lots and smuggled back into Hongkong, from where it is smuggled to Canton. This is done because the facilities for smuggling from Hongkong into China are superior to those at Macao [REDACTED]

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